

## Message Text

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FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

S E C R E T STATE 248460 TOSEC 160041

NODIS

FOLLOWING REPEAT MOSCOW 14981 ACTION SECSTATE 18 OCT 75

QUOTE

S E C R E T MOSCOW 14981

NODIS

E.O. 11652 GDS

TAGS: ETRD, EETW, UR, US

SUBJECT: GRAIN/OIL NEGOTIATIONS

REF: A. MOSOW 14958 B. STAATE 248235 C. STATE 247128

1. I MET WITH PATOLICHEV, KUZ'MIN AND GORDEYEV AT 1 P.M. THIS AFTERNOON SATURDAY OCTOBER 18 ACCOMPANIED BY AMBASSADOR STOESSEL AND FSO NILES. WE WERE CONFRONTED WITH THE SAME COLD, HARD, DETERMINED POSITION PATOLICHEV HAD EVIDENCED DURING HIS MEETING WITH US YESTERDAY; HE REPEATEDLY DENOUNCED OUR POSCTION IN NOW FAMILIAR NON-COMPROMISING TERMS. WE PRESSED FOR ACCEPTANCE OF OUR PROPOSED FORMULATION FOR PRICE CLAUSE 6 OF THE OIL LETTER OF INTENT ON THE BASIS OF INSTUCTIONS RECEIVED REFTEL B, BUT MADE NO PROGRESS DURING OUR TWO-HOUR MEETING. FINALLY, RECOGNIZING THAT

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WE WERE AT AN IMPASSE, WE AGREED TO SUSPEND NEGOTIATIONS FOR

FURTHER REVIEW OF THIS UNRESOLVED ISSUE, WITH THE UNDERSTANDING WE MIGHT RECONVENE ON MONDAY MORNING. I HAVE CANCELLED MY PLANS FOR DEPARTING MOSCOW ON SUNDAY OCTOBER 19 FOR TUNIS AND WILL HOLD HERE PENDING FURTHER INSTRUCTIONS.

2. WE HAD PRESENTED IN ADVANCE OUR PROPOSED REVISION TO CLAUSE 6 OF THE OIL LETTER OF INTENT AS INSTRUCTED REFTEL B, PARA 5. PATOLICHEV IMMEDIATELY ATTACKED US ON THE BASIS THAT WE HAD REQUESTED THAT THEY TAKE INTO ACCOUNT QUALITY, SUPPLY AND TRANSPORTATION CONDITIONS IN ESTABLISHING PRICES WITHOUT REFERENCE TO WORLD MARKET PRICE BASE. HE SAW THIS AS AN EFFORT ON OUR PART TO TAKE ADVANTAGE OF THE SOVIETS IN SUBSEQUENT NEGOTIATIONS ON THE OIL AGREEMENT AND, EVEN IF THIS WERE NOT OUR INTENT, THIS WAS THE WAY THE WORLD WOULD INTERPRET IT, PLACING THEM IN AN IMPOSSIBLE POSITION. IN SPITE OF MY EFFORTS TO REASSURE HIM ON THIS POINT, HE CONTINUED TO VIEW OUR POSITION AS ATTEMPTED "BLACKMAIL" AND REAFFIRMED THAT IT WAS "TOTALLY UNACCEPTABLE." HE SUGGESTED THAT THEY COULD AGREE TO OUR LATEST PROPOSAL FOR THE REVISED CLAUSE 6 OF THE OIL LETTER OF INTENT, BUT ONLY IF WE INCLUDE REFERENCE TO WORLD MARKET PRICES. I REJECTED THIS ON THE BASIS THAT THERE WAS NO SUCH THING AS "WORLD MARKET PRICE." THIS PROMPTED A LENGTHLY AND INCONCLUSIVE DISCUSSION BUT IT WAS APPARENT THAT WE WERE NOT GOING TO CONVINCE PATOLICHEV ON THIS POINT. HE FINALLY SUGGESTED THAT, ALTHOUGH THEY WERE UNHAPPY WITH THE CLAUSE 6 FORMULATION PREVIOUSLY AGREED, THEY WOULD STILL ACCEPT THAT VERSION (WITHOUT SIDE LETTER), WHICH HAD BEEN PREVIOUSLY PROPOSED TO WASHINGTON (MOSCOW 14241). THIS READS AS FOLLOWS: "PRICE FOR CRUDE OIL AND PETROLEUM PRODUCTS WILL BE MUTUALLY AGREED AT A LEVEL WHICH WILL ASSURE THE INTEREST OF BOTH THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS."

3. OUTSIDE OF ADVISING THEM THAT I WOULD REFER THIS TO WASHINGTON I EVIDENCED NO WILLINGNESS TO RECONSIDER THIS FORMULATION WITHOUT THIS LETTER WHICH THEY HAD UNCONDITIONALLY REJECTED. ACCORDINGLY, WE HAVE SUSPENDED NEGOTIATIONS PENDING YOUR REVIEW OF THIS ISSUE. AS WE ANTICIPATE NO FURTHER GIVE ON THE PART OF THE SOVIETS BY MONDAY MORNING OCTOBER 20, I BELIEVE THAT WE MUST ACCEPT THIS FORMULATION (PARA 2 ABOVE) FOR PRICE CLAUSE 6 OF THE OIL LETTER OF INTENT WITHOUT THE SIDE LETTER FOR THE FOLLOWING

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REASONS:

A. IT IS SUFFICIENTLY IMPRECISE TO SUPPORT THE CONCLUSION WORLDWIDE THAT WE HAVE A SPECIAL PRICE ARRANGEMENT REFLECTING THE LEVERAGE OF AGRI-POWER.

B. READ, IN CONNECTION WITH CLAUSE 4 OF THE OIL LETTER OF INTENT WHICH ESTABLISHES OUR MUTUAL AGREEMENT THAT OIL DELIVERIES ARE TO

BE MADE TO THE U.U., WE HAVE CLEARLY ESTABLISHED THE PRINCIPLE THAT THE COST OF SOVIET OIL DELIVERIES TO THE U.S. MUST BE ATTRACTIVE IN RELATION TO THE DELIVERED COST OF OIL FROM ALTERNATE SOURCES. THIS ESTABLISHES THE BASIC POSITION FROM WHICH WE WILL BE NEGOTIATING OIL FREIGHT RATES AND F.O.B. NOVORSOSSISK PRICES.

C. WE SEE NO REPEAT NO OTHER PRACTICAL ALTERNATIVE.

4. WE ALSO DISCUSSEF THE QUESTION WHICH I HAD RAISED YESTERDAY REGARDING PRESIDENT FORD'S STATEMENTTO BE MADE ON LIFTNG THE MORATORIUM. I REPORTED THAT I HAD TRANSMITTED TO WASHINGTON PATOLICHEV'S COMENT YESTERDAY THAT THE SOVIETS DID NOT INTEND TO PURCHASE ADDITIONAL GRAIN IN THE U.S. IN A VOLUME WHICH WOULD DISRUPT OUR MARKET. I ALSO REPORTED THAT I WAS NOW AUTHORIZED TO ADVISE HIM THAT WE WOULD NOT CONSCDER ADDITIONAL PURCHASES UP TO 7 MILLION TONS THIS YEAR AS DISRUPTIVE (REFTEL C). PARTOLICHEV ACKNOWLEDGED THIS INFORMATION BUT IMMEDIATELY LAUNCHED INTO ANOTHER LECTURE ON HOW THEY HAD AND WERE CONTINUING TO CONCLUDE GRAIN PURCHASES IN THIRD COUNTRIES WHICH WERE RAPIDLY DECREASING THEIR DEPENDENCE ON THE U.S. MARKET. HE STATED SPECIFICALLY THAT THEY HAD PURCHASED MORE GRAIN IN THESE THIRD MARKETS THAN THEIR TOTAL PURCHASES IN THE U.S. THIS YEAR. (IF TRUE, THIS WOULD INDICATE THAT THE SOVIETS HAVE ALREADY PURCHASED A TOTAL OF OVER 20 MILLION METRIC TONS.)

5. PETOLICHEV THEN ADVISED THAT HE HAD REPORTED TO BREZHNEV, KOSYGIN AND PODGORNYY YESTERDAY MY INDICATION THAT WE COULD MAKE AVAILABLE THE 5 MILLION TONS OF ADDITINAL GRAIN WHICH THEY HAD INITIALLY ADVISED US THAT THEY WOULD NEED, ABOVE WHICH CONSULTATIONS MIGHT BE REQUIRED. ALTHOUGH HE STRESSED THAT THEY WERE RESPONDING TO PRESIDENT FORD'S REQUEST, THEY WOULD NOT TO PURCHASE MORE THAN 5 MILLION TONS ADDITIONAL DURING THE CURRENT YEAR WITOUT FURTHER CONSULTATON WITH THE USG. ON THIU BASIS IT  
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WOULD APPEAR THAT WE HAVE TWO ALTERNATIVES FOR PRESIDENT FORD'S STATEMENT ON LIFTING THE MORATORIUM:

A. THE PRESIDENT COULD MAKE THE STATMENT SUGGESTED REFTTEL A, PARA 3. THIS WOULD READ AS FOLLOWS: "THE SOVIETS HAVE ASSURED US THAT THEIR ADDITIONAL PURCHASES OF U.S. GRAIN FOR THE CURRENT YEAR WILL NOT BE IN A VOLUME WHICH COULD DISRUPT THE U.S. MARKET. THEY FURTHER UNDERSTAND THAT WE WOULD CONSIDER UP TO 7 MILLION TONS AS NON-DISRUPTIVE UNDER CURRENT CONDITIONS AND ARE PREPARED TO CONSULT WITH REGARD TO ANY POSSIBLE RQUIREMENTS BEYOND THIS LEVEL.

B. ALTHOUGH WE RISK A SUBSEQUENT CLAIM BY THE SOVIETS THAT THEIR AGREEMENT WAS MADE AT THE REQUEST OF PRESIDENT FORD, CT IS FACTUAL TO STATE "THE SOVIETS HAVE AGREED NOT TO PURCHASE

MORE THAN 5 MILLION TONS OF ADDITIONAL U.S. GRAIN DURING THE CURRENT YEAR WITHOUT CONSULTING WITH THE USG REGARDING ANY POSSIBLE ADDITIONAL REQUIREMENTS."

7. WE WOULD RECOMMEND STATEMENT ALONG LINES OF PARA 6A ABOVE AS THIS PROBABLY MORE PALATABLE TO U.S. FARMERS AND LESS LIKELY TO BE CLARIFIED BY SOVIET ANNOUNCEMENT IN A WAY WHICH MIGHT CAUSE PROBLEMS FOR PRESIDENT FORD.

8. I AM DEFERRING MENTION OF THE LOCUS AND TIMING OF OIL AGREEMENT NEGOTIATIONS AS THIS WOULD WEAKEN OUR NEGOTIATING POSITION IF RAISED PRIOR CONCLUSION OF AN UNDERSTANDING ON THE OIL LETTER OF INTENT.

9. WE ARE CLEARLY GOING DOWNHILL IN TERMS OF NEGOTIATING POSITION AND ACCORDINGLY URGE AUTHORIZATION TO CONCLUDE THESE GRAIN/OIL NEGOTIATIONS ON THE BASIS OF THE GRAIN AGREEMENT AS PREVIOUSLY AGREED AND THE OIL LETTER OF INTENT WITH PRICE CLAUSE 6 AS PREVIOUSLY AGREED IN ACCORDANCE WITH PARA 2 ABOVE. WE SEE NO WAY TO IMPROVE OUR POSITION AND IT COULD FURTHER DETERIORATE IF WE PROLONG THESE NEGOTIATIONS BEYOND MONDAY MORNING MOSCOW TIME OCTOBER 20.

10. I BELIEVE THAT THE LONG-TERM GRAIN AGREEMENT AS NEGOTIATED REPRESENTS A SUBSTANTIAL CONCESSION FROM THE SOVIETS AND A COMMITMENT WHICH SERVES THE U.S. PUBLIC, FARMERS AND MARITIME  
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INTERESTS. I FURTHERMORE FEEL THAT THE OIL LETTER OF INTENT WITH PRICE CLAUSE 6 PROPOSED ABOVE OFFERS THE U.S. A PARTIAL HEDGE

AGAINST OIL EXPORT EMBARGOES, A SUBTLE SIGNAL TO THE WORLD OF THE REALITY OF AGRI-POWER AND POTENTIALLY AN ECONOMIC BENEFIT IF WE UTILIZE EFFECTIVELY OUR CONTINUING LEVERAGE FROM EXTENSION OF THE MARITIME AGREEMENT. ACCORDINGLY I RECOMMEND THAT I BE AUTHORIZED TO SIGN THESE AGREEMENTS ON MONDAY MORNING ON THE BASIS OUTLINED ABOVE.

STOESSEL

UNQUOTE INGERSOLL

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